

**Deleted:** Addendum to Underwriting  
Narrative

**Addendum to Underwriting  
Narrative – Project Capital  
Needs Assessment (PCNA)  
Section 232 (223(a)7)**

**U.S. Department of Housing  
and Urban Development  
Office of Healthcare Programs**

OMB Approval No. 9999-9999  
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This addendum is applicable for Section 223(a)(7) if either a term extension is requested, or it has been over 10-years since the last PCNA.

## Project Capital Needs Assessment (PCNA)

Date of Inspection: \_\_\_\_\_  
Firm: \_\_\_\_\_  
Needs Assessor: \_\_\_\_\_  
Units Inspected: X units (X% of units)

The scope of the inspection consisted of a visual evaluation of the project site, building exteriors, roof, interior common areas, all mechanical rooms, and a sampling of resident units (as indicated above). The report was prepared in accordance with the Project Capital Needs Assessment Statement of Work for the Section 232/223(f) Pilot Streamlined Processing program.

A summary of the PCNA and underwriting conclusions

PCNA Repair Summary		
	PCNA	Underwriter
Critical Repairs		
Non-Critical Repairs		
Borrower Proposed Repairs:		
Total Repairs:		

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### Key PCNA Questions

	<u>Yes</u>	<u>No</u>
1. Will the non-critical and/or borrower proposed repairs be escrowed at closing?	_____	_____
a. Will the escrowed repairs take more than 12 months to complete?	_____	_____
b. Is the repair escrow to be less than <u>120</u> % of the repair estimate?	_____	_____
2. Will replacement reserve funds be used to fund any of the required or proposed repairs?	_____	_____
3. Do any of the repairs require drawings and/or specifications?	_____	_____
4. Do any of the repairs require relocation of the tenants?	_____	_____
5. Will any of the repairs create vacancy issues requiring an operating deficit?	_____	_____
6. Will any of the repairs require permits or locality approvals?	_____	_____
7. Will any of the repairs require a review by the State licensing authority?	_____	_____
8. Were any specialty reports (e.g., seismic, wood destroying organisms, etc.) required?	_____	_____

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If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic. If not applicable, indicate “NA” in the No column. Example:

**Repair Escrow:** The non-critical and borrower proposed repairs will be escrowed at closing, for further detail see the Repair section below.

>>

### Lender Modifications

<<Provide a brief summary of modifications made by underwriter. If none, state none.

Example: “The PCNA’s analysis of reserve requirements for major movable equipment included replacement of the facility’s bus/van. The underwriter has deleted this item as it is not eligible for reimbursement from the replacement reserve account.”>>

### Fire / Building Codes and HUD Standards

<<Provide narrative description regarding needs assessor’s finding, application exhibits (8-5 and 8-6)>>

### Handicapped Accessibility

<< Provide a brief summary of modifications made by underwriter. If none, state none.

Example: “Per the needs assessor, the facility is in substantial compliance with the Fair Housing Accessibility Guidelines. The needs assessor calls for installation of enunciator/strobe light smoke detectors in one unit in each building under Section 504....>>

### Seismic Evaluation

<< Provide narrative discussion. Example: “The facility is located within seismic zone 2B, an area of limited potential for earthquake ground shaking. No additional evaluation is required regarding seismic activity.”>>

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## Repairs

### Critical Repairs

<<Provide a brief summary of the required critical repairs. If none, state none. See example for Non-Critical Repairs below.>>

### Non-Critical Repairs

<<Provide a brief summary of the required critical repairs. If none, state none. Example: The needs assessor identified the following non-critical repair items totaling \$XXXX:

1. Remove and replace....Estimated cost: \$XXXX.
  2. Provide a fire alarm annunciator, including strobe lighting, for....Estimated cost: \$XXXX.
- >>

### Borrower Proposed Repairs

<<Provide a brief summary of the borrower proposed repairs. If none, state none. See example for Non-Critical Repairs above.>>

### Completion and Inspection of Repairs

The repair list attached to Exhibit C of the Draft Firm Commitment clearly describes the location of the repairs and what is required. The description is sufficiently detailed so that an experienced person can perform the work and that an experience inspector can inspect with minimal additional direction or consultation.

## Replacement Reserves

Replacement Reserve Summary		
	Amount	Per Unit
Initial Deposit	\$85,500	\$1,379
Annual Deposit      Years: 1-15	\$26,350	\$ 425

<<The above table should identify all changes in the annual deposit from year to year>>

### General Review

The replacement reserve analysis includes a combined analysis of both capital items and major movable equipment. The underwriter has reviewed the replacement reserve schedule and provided a summary analysis below. The full 15-year replacement reserve schedule, including the major movable analysis, is provided as Exhibit B to the Draft Firm Commitment submitted with this narrative.

In the analysis below, the underwriter spreads the anticipated replacements by year based on the needs assessor's replacement reserve analysis and assumes an interest of X% and an inflation rate of X%.

Year	0	1	2	3	4	5
Interest Earned	2.0%	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Initial Deposit	\$ -					
<b>Total Deposits</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Claims	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Claims	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

  

Year	6	7	8	9	10
Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Deposit	\$ -	\$ -	\$ -	\$ -	\$ -
Initial Deposit					
<b>Total Deposits</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Claims	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Claims	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

  

Year	11	12	13	14	15
Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Deposit	\$ -	\$ -	\$ -	\$ -	\$ -
Initial Deposit					
<b>Total Deposits</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Claims	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative Claims	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

As you can see, the year-end balance for each year through year 15 is positive, indicating that the initial and annual deposit are sufficient based on these assumptions. The HUD program requires the lender to re-analyze the capital needs in year ten.